

# Records Retention Guidelines



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## **Records Retention Policy**

There are eight basic steps that can guide an organization in developing a sound record retention policy:

1. Evaluating statutory requirements, litigation obligations, and business needs;
2. Classifying types of records;
3. Determining retention periods and destruction practices;
4. Drafting and justifying record retention policy;
5. Training staff;
6. Auditing retention and destruction practices;
7. Reviewing policy periodically; and
8. Documenting policy, implementation, training, and audits.

We strongly recommend you seek legal counsel because the courts generally do not differentiate between what is hard copy form and that what is soft copy, or digital, form. The court will want the “best source” document submitted, and some documents, such as those we mentioned above which have a corporate or government seal on them should be maintained, but, if you keep your reports and other forms in electronic format, these should be admissible.

What is important is that you do have a formal written records retention policy. You are responsible for determining required, legislated retention periods based on your profession, industry, and state and federal laws.

The following is a suggested starting point and details which records must be kept permanently and which can be discarded after a time. The suggested retention time period generally begins at the end of the fiscal year in which the paper was created. For employment records, the schedule begins after the employee terminates. Items supporting your tax returns would be retained a minimum of three years after the applicable tax return was filed. Again, these are only guidelines to assist you in developing a suitable plan for your business.

## **Permanent Records**

- Annual Financial Statements
- Articles of Incorporation
- Pension Records
- Company Stocks and Bonds
- Property Records, including account ledgers, appraisals, plan specifications, and sales
- Deeds
- Dividend Registers
- Tax Return (estate, gift, and income)
- General Ledgers
- Title Papers
- Contracts, Changes, and Specifications
- Audit Reports
- Union (Labor) Contracts
- Trademark Records
- Minutes of Meetings
- Warrants
- Note Registers
- Year End General Journal Entries

### **Ten Years**

- Check Registers
- Personal Property Tax Returns
- Corporate Contacts
- Sales and Use Tax Returns
- Franchise Agreements
- Voucher Registers
- Accounting Journals
- Workers' Compensation Reports
- Tax Records

### **Seven Years**

- Accident Reports
- Notes
- Bank Statements
- Options
- Checks
- Plant Acquisition Records
- Correspondence
- Property Damage Reports
- Depreciation Schedules
- Employee and Vendor Contracts
- Purchase Invoices
- Employment Applications and Contracts

- Sales Invoices, Slips, and Work Records
- Payroll Tax Returns
- Fixed Asset Records
- Social Security Tax Returns
- Inventory Records
- Uncollectible Accounts Records
- Invoices
- Vouchers
- Leases
- Equipment
- Withholding and Exemption Certificates
- Maintenance and Repair Records
- W-2 Forms
- Mortgage Records
- Personnel Files
- Paychecks
- Unemployment Claims

#### **Five Years**

- Bills of Lading
- Fire Damage Reports
- Cost Accounting Records
- Freight Draft, Bills, and Claims
- Daily Time Reports
- Shipping Tickets
- Sales Commission Reports
- Expense Reports

#### **Three Years**

- Bank Deposit Slips
- Insurance Policies (after expiration)
- Bank Reconciliations
- Petty Cash Records
- Budgets
- Purchase Order Copies
- Delivery Receipts
- Receiving Reports
- Remittance Statements
- Fidelity Bonds
- Requisitions
- Interim Financial Statements
- Surety Bonds
- Garnishments
- Travel Records

#### **One Year**

- Licenses (after expiration)

**Retention Table**

While the above list is great as a simple overview of the type of records which should be retained, the following table organizes these slightly different and includes specific items. Again, you should verify your retention policy against state and federal, or industry specific requirements.

<b>TYPE OF RECORD</b>	<b>TIME PERIOD TO RETAIN</b>
<b>ACCOUNTING RECORDS</b>	
Auditors' Report/Annual Financial Stmts.	Permanently
Bank Statements and Deposit Slips	7 Years
Cancelled Checks:	
- Fixed Assets	Permanently
- Taxes (Payroll Related)	7 Years
- Taxes (Income)	Permanently
- General	7 Years
- Payroll	7 Years
Cash Disbursements Journal	Permanently
Cash Receipts Journal	Permanently
Chart of Accounts	Permanently
Deeds, Mortgages, Bills of Sale	Permanently
Electronic Payment Records	7 Years
Employee Expense Reports	7 Years
Fixed Asset Records (Invoices, Cancelled Checks, Depreciation Schedules)	Permanently
Freight Bills and Bills of Lading	7 Years
General Journal	Permanently
General Ledger	Permanently
Inventory Listings and Tags	7 Years
Invoices: Sales to Customers/Credit Memos	7 Years
Patent/Trademark and Related Papers	Permanently
Payroll Journal	Permanently
Production and Sales Reports	7 Years
Purchases	7 Years
Purchase Journal	Permanently
Purchase Orders	7 Years
Sales or Work Orders	7 Years
Subsidiary Ledgers (Accts. Receivable, Accts. Payable, Equipment)	7 Years
Time Cards and Daily Time Reports	7 Years
Training Manuals	Permanently
Trial Balance - Year End	Permanently

<b>EMPLOYEE BENEFIT PLAN RECORDS</b>	
Actuarial Reports	Permanently
Allocation and Compliance Testing	7 Years
Brokerage/Trustee Statements Supporting Investments	7 Years
Financial Statements	Permanently
General Ledger and Journals	Permanently
Information Returns (Form 5500)	Permanently
Internal Revenue Service/Department of Labor Correspondence	Permanently
Participant Communications related to Distributions, Terminations, Beneficiaries	7 Years
Plan and Trust Agreements	Permanently

<b>INSURANCE RECORDS</b>	
Accident Reports and Settled Claims	6 Years after settlement
Fire Inspection and Safety Reports	7 Years
Insurance Policies (still in effect)	Permanently
Insurance Policies (expired)	7 Years

<b>LEGAL DOCUMENTS</b>	
Articles of Incorporation and Bylaws	Permanently
Buy-sell Agreements	Permanently
Contracts and Leases (still in effect)	Permanently
Contracts and Leases (expired)	7 Years
Employment Agreements	7 Years
Legal Correspondence	Permanently
Minutes	Permanently
Partnership Agreements	Permanently
Stock Certificates and Ledgers	Permanently

<b>PERSONNEL RECORDS</b>	
Child Labor Certificates and Notices	3 Years
Employment Application (from date of termination)	2 Years
Employment Eligibility Verification (I-9 Form) (from date of termination)	3 Years
Help Wanted Ads and Job Opening Notices	2 Years
Personnel Files (from date of termination)	4 Years
Records of job injuries causing loss of work	5 Years
Safety: chemical and toxic exposure records	30 Years
Union agreements and individual employee contacts (from date of termination)	3 Years

<b>TAX RECORDS</b>	
IRS or FTB Adjustments	Permanently
Payroll Tax Returns	4 Years
Property Basis Records	Permanently
Sales and Use Tax Returns	Permanently
Tax Returns and Cancelled Checks for Tax Payments	Permanently



## Records Retention Tips

<http://www.cpai.com/show-article?type=print&id=33>

A formal records retention policy for engagement working papers and files is an important risk management tool. The policy should apply to all storage mediums, including paper, electronic files, e-mails, voicemail, and film. Once established by the firm, the records retention policy should be followed consistently and disclosed in engagement letters or other written communication to clients as it applies to the specific services to be rendered.

Consider the following issues when establishing a formal records retention policy:

**Applicable statutes of limitation.** The statutes for tort-based malpractice actions in more than one jurisdiction may be relevant, as many CPA firms or their clients do business in multiple states. In many jurisdictions, the "discovery rule" applies, meaning that the statute of limitations to file suit against a CPA begins to run on the date the client first knew or should have known of the act, error, or omission giving rise to the malpractice claim against the CPA.

**Legal or regulatory requirements for CPAs.** Despite the Supreme Court May, 2005 opinion that the U.S. Justice Department had overreached in prosecuting Arthur Andersen for shredding records pursuant to the firm's "document retention policy," destruction of documents that have been requested as part of a formal government investigation continues to be an offense under federal law, including, for example, the Sarbanes-Oxley Act of 2002 (SOX). A CPA firm should follow its record retention policy consistently so there will be no dispute as to the purpose of records destruction. In addition to SOX requirements, other federal, state, and local jurisdiction laws, rules, and regulations address document retention requirements, including those of state boards of accountancy. For example, the Public Company Accounting Oversight Board *Auditing Standard No. 3, Audit Documentation*, requires an auditor to retain audit documentation for seven years from report release date, and many state and municipal bodies in accordance with local statutes, require records be retained for specified periods by entities furnishing products and services.

**Legal or regulatory requirements for clients.** Some clients are subject to minimum periods of retention due to legal or regulatory requirements (e.g., entities receiving federal grants or funding). These client requirements may also impact CPA working paper retention requirements.

**Client source documents.** All client source documents used during an engagement and deemed necessary for retention in working papers should be copied and the originals should be returned to the client with a signed and dated letter. CPAs should not unintentionally assume the client's responsibility for maintaining client original records.

**Financial statement services.** Complete working paper files are critical in defending compilation, review, and audit engagements. Some files may need to be retained past the expiration of applicable statutes of limitations due to regulatory requirements, to respond to a tax audit or support conclusions included in later reports.

**Tax services.** Based on the discovery rule, claims relating to tax work may be alleged during a longer period of time. This is especially true for business tax clients and trust or estate work. CPAs should consider establishing different document retention policies for tax engagements based on the type of client and service rendered.

**Consulting services.** The discovery rule is also a significant issue in document retention policies for these practice areas. If the financial results from actions taken by the client in response to the consultant's recommendations are measured over many years (e.g., in employee benefit plans, financial plans, retirement plans, or estate plans), accountants should consider retaining related documents over an extended period. Alternatively, documentation on advice regarding short-range business issues, such as inventory management and accounts receivable collection, probably warrants a shorter retention period.

**Legal and environmental issues.** Clients may be involved in criminal or tort litigation or may be under investigation by regulators regarding legal or environmental issues that do not involve the firm. If the firm has received a subpoena in connection with these matters, CPAs must not destroy or alter the working papers even if the files are scheduled for destruction according to the firm's policy. Questions regarding these issues should be directed to legal counsel.

**Current vs. former clients.** CPAs should not base retention policies on client retention. An appropriately designed policy provides for timely destruction of documents no longer needed and avoids the need to distinguish between current and former clients.

The need to retain engagement working papers and files varies depending on laws and regulations applicable to the client and the state or other legal jurisdiction where services are rendered. Each firm should consult with legal counsel to develop a retention policy based on its particular situation and requirements. Additionally, firms should uniformly and consistently follow the policy and monitor its ongoing application as part of an overall quality control program.

AICPA Professional Liability Insurance Program policyholders can find more information about records retention in the Program record retention guide, *Retaining Engagement Records and Responding to Requests for Records* in the Policyholder Resource Center. November 2005. By John McFadden, CPA, CFE, Risk Control Consulting Director and Joseph Wolfe, Assistant Vice President, Risk Control, CNA, Accountants Professional Liability, CNA Center, Chicago, IL 60685.

# **SAMPLE RECORD RETENTION POLICY**

## **Objective**

This comprehensive record retention policy balances the benefits of retaining records that materially support professional reports or advice, or permit an acceptable level of client service, against the substantial costs of storing and retrieving.

## **Definitions**

Engagement Records are all records that are relevant to and materially support the Firm's professional opinions, advice or work product. This includes workpapers, reports or documents transmitted by the Firm, and records or documents received by the Firm, which are material to the execution of our client engagements. For existing clients only, Engagement Records included in permanent files are retained and updated annually and, as a result, are not subject to the retention period. Engagement Records do not include administrative records, such as billing records.

Engagement Records include electronic files in the possession of the Firm's personnel that are relevant to the Firm's professional opinions, advice or work product. Electronic files include E-Mail transmissions, client files or E-Mail messages contained on a professional's computer hard drive and client files maintained on network file servers.

Client Records are documents in the Firm's possession, which ordinarily should be kept and maintained by the client. Examples of Client Records include depreciation and amortization schedules, schedules supporting and actual journal, closing or reclassification entries, asset basis information, etc. A Client Record does not include any workpaper developed by the Firm or prepared by client personnel at the Firm's request which workpaper is integral to the performance of a client engagement.

## ***Applicability***

This Policy applies to Engagement Records and Client Records obtained, developed or relied upon in connection with:

- Compilation, review, audit, prospective financial presentation, and other agreed-upon procedures, special reports or attestation engagements,
- The preparation and/or filing of tax returns or the performance of tax planning, tax advice, or tax representation,
- Engagement Records obtained or developed in connection with consulting services engagements, and
- Any other engagement records arising out of all professional services or work product.

## ***Policy***

Engagement Records Retention Period - Engagement Records for all professional services shall be retained for a period of seven years from the year end of client or the date of the Firm's last planning, advice, consultation or representation engagement for such client. If there is any ambiguity regarding the date for implementation of retention, all doubts shall be resolved in favor of the earliest

implementation date. See **Exhibit A** for a summary of retention periods related to Engagement Records.

Exception - A longer retention may be deployed in specific cases to the extent required by any applicable law, regulation or engagement contract. It is contemplated that the instances of required retention beyond seven years will be infrequent and unusual.

To the extent that the Engagement Records are relevant to any pending tax examination, civil litigation or regulatory proceeding, the applicable retention period shall be extended for a period of time reasonably necessary to facilitate disposition of the examination, litigation or proceeding.

Following the initial retention period specified above, the Manager in Charge (MIC), or his designee, shall cause the Firm to no longer retain any Engagement Records (See "Method of Disposal of Client or Engagement Records").

Client requests that Engagement Records should be retained for a period longer than the prescribed period shall be pre-approved in writing by the Firm's Presiding Member.

Under certain circumstances, the Firm's Legal Counsel may direct the MIC to retain Engagement Records for a designated period of time.

Retention of Client Records - The original (or copy, if appropriate) Client Records should preferably be returned to the client at the end of the engagement. To the extent Client Records have not been returned to the client, Client Records shall be retained for a period of seven years. However, Client Records need not be retained if at the end of the engagement (or termination date), a representation is obtained from the client indicating that such records are no longer needed by the client. Careful consideration must always be exercised to assure that Client Records, which are being returned to or copied for the client or consultant, does not include descriptions of our procedures or conclusions.

Successor Auditor/Accountant - We will normally not allow a review of our workpapers until the fees for all professional services rendered have been paid. Additionally, we must receive (a) notification that the successor has been appointed by our former client, (b) written authorization by our former client, and (c) a written letter of acknowledgment by the successor auditor. In the absence of unusual circumstances, we will make certain workpapers (e.g. those workpapers that are related to matters of continuing significance) available for review in our office by the successor auditor or accountant. Our workpapers should remain under our control at all times.

Continuing significance includes workpapers such as: the analysis of accounts, report grouping support, internal control structure understanding documentation, summary of proposed audit adjustments, information regarding key audit issues, tax workpapers pertinent to accurate completion of subsequent year tax returns, such as LIFO inventory computations, tax only depreciation computations and carry forward schedules relative to accounting method and period revisions.

Continuing significance does not include the following and they should not be made available to successor auditor: the risk assessment and overall audit plan, audit program sheets, tax research notes or memorandum, or administrative materials such as billing or time records.

We should make a separate copy for our files of any document which has been copied and transmitted to the successor auditor/accountant. This is to avoid problems and issues regarding the exact nature and extent of documents given to the successor.

Successor Consultant - On consulting engagements, a successor consultant shall not be permitted to review or copy Engagement Records.

Method of Disposal of "Client" or "Engagement" Records - Client Records or Engagement Records that are not required to be retained should be disposed of in a manner that assures the confidentiality of the information contained therein. This typically entails the shredding of the materials while under Firm control.

Firm Administrative Records for Retention – The Firm also needs to maintain certain administrative records for purposes as required by law and internal operational purposes. A schedule of records and the related retention periods is identified in Exhibit A. Under no circumstances should any administrative record not identified in Exhibit A be maintained for more than seven (7) years unless approved by the Presiding Member or Executive Director.

Exception to the Policy - Exceptions to this Policy shall be pre-approved by the Firm's Legal Counsel.

***Effective Date: This Policy shall be effective immediately.***

## Exhibit A – Record Retention Guidelines

Description of records	Paper	Electronic
<b>Personnel Records</b>		
Personnel File contents	Indefinite	N/A
Applications, resumes for non hires	1 Year	N/A
Job progress evaluations	After annual evaluation is completed	N/A
Annual Evaluations	3 Years	3 Years
Personnel Policy - Annual summary	10 Years	N/A
<b>Payroll Records</b>		
Annual Payroll information	7 Years	7 Years
Interim Payroll information	3 Years	3 Years
PTO request forms/summary records	3 Years	3 Years
Payroll Tax Returns	4 Years	4 Years
<b>Administrative Files</b>		
Work Orders/Tax Tickets	7 Years	N/A
Member and Staff Correspondence-Admin.	3 Years	5 Years
Time Records and Time Books	1 Year	5 Years
Expense Reports	4 Years	4 Years
CPE records		
Annual Reports with Attendance	5 Years	N/A
In house Course materials	5 Years	N/A

CPE course books & materials	5 years	N/A
Purchase orders	3 years	3 Years
Invoices	4 Years	N/A
Canceled checks	4 Years	N/A
General Ledgers – Annual	Indefinite	Indefinite
<b>Firm Financial Reports</b>		
Monthly	4 Years	4 Years
Annual	Indefinite	Indefinite
Partnership/PLLC Tax Returns and supporting	Indefinite	Indefinite
<b>W/Ps</b>		
Minutes	Indefinite	3 Years
Contracts - current	Indefinite	N/A
Contracts – Expired	4 Years	N/A
Depreciation Schedules – Year End	Indefinite	Indefinite
New Client Sheets	3 Years	N/A
Lost Client Sheets	7 Years	N/A
Client Change Sheets	3 Years	N/A



Description of records	Paper	Electronic
<b>Client Records</b>		
<b>Engagement Records – Current &amp; Former Clients</b>		
Audit File work papers	7 Years	7 Years
Tax Return work papers	7 Years	7 Years
Compilation work papers	7 Years	7 Years
Review Work papers	7 Years	7 Years
Agreed Upon procedures	7 Years	7 Years
Special Reports/Attestation engagements	7 Years	7 Years
Consulting Services	7 Years	7 Years
<b>Permanent Files</b>		
Current Client	Indefinite	Indefinite
Former Client	7 Years	7 Years
Contents of Permanent File (NLC's - 7 Years)		
Client Correspondence	7 Years	7 Years
Financial Statements	7 Years	Indefinite
Tax Returns & related correspondence	Indefinite	Indefinite
Forms, Schedules, computations, other contents	Indefinite until replaced then file with current year work papers	After replaced retain for 7 Years

## **Exhibit B – Email Policy**

The purpose of this policy is to ensure the proper use of the firm’s email system and make users aware of what the firm deems as acceptable and unacceptable use of its email system. The firm reserves the right to amend this policy at its discretion. In case of amendments, users will be informed appropriately.

### **Legal Risks**

Email is a business communication tool and users are obliged to use this tool in a responsible, effective and lawful manner. Although by its nature email seems to be less formal than other written communication, the same laws apply. Therefore, it is important that users are aware of the legal risks of email:

- If you send emails with any libelous, defamatory, offensive, racist or obscene remarks, you and the firm can be held liable.
- If you forward emails with any libelous, defamatory, offensive, racist or obscene remarks, you and the firm can be held liable.
- If you unlawfully forward confidential information, you and the firm can be held liable.
- If you unlawfully forward or copy messages without permission, you and the firm can be held liable for copyright infringement.
- If you send an attachment that contains a virus, you and the firm can be held liable.

By following the guidelines in this policy, the email user can minimize the legal risks involved in the use of email. If any user disregards the rules set out in this Email Policy, the user will be fully liable and the firm will disassociate itself from the user as far as legally possible.

### **Legal Requirements**

The following rules should be adhered to. It is prohibited to:

- Send or forward emails containing libelous, defamatory, offensive, racist or obscene remarks. If you receive an email of this nature, you must promptly notify your supervisor.
- Forge or attempt to forge email messages.
- Disguise or attempt to disguise your identity when sending mail.
- Send email messages using another person’s email account.

## **Best Practices**

The firm considers email as an important means of communication and recognizes the importance of proper email content and speedy replies in conveying a professional image and delivering good client service. Users should take the same care in drafting an email as they would for any other communication. Therefore the firm wishes users to adhere to the following guidelines:

### **Writing emails:**

- Write well-structured emails and use short, descriptive subjects.
- The firm's email style is informal. This means that sentences can be short and to the point. You can start your email with 'Hi', or 'Dear', and the name of the person. Messages can be ended with 'Best Regards'. The use of Internet abbreviations and characters such as smileys however, is not encouraged.
- Signatures should include your name, job title and company name. A disclaimer will be added underneath your signature (see Disclaimer)
- Users must spell check all mails prior to transmission.
- Do not send unnecessary attachments. Compress attachments larger than 200K before sending them.
- Do not write emails in capitals.
- If you forward mails, state clearly what action you expect the recipient to take.
- Only send emails of which the content could be displayed on a public notice board. If they cannot be displayed publicly in their current state, consider rephrasing the email, using other means of communication, or protecting information by using a password (see confidential).
- Only mark emails as important if they really are important.

### **Replying to emails:**

- Emails should be answered promptly within at least 8 working hours, but users should endeavor to answer priority emails within 4 hours.
- Never respond to email in anger or haste. Consider responses carefully, even hold the reply in the Draft folder while considering if the response is appropriate.
- Priority emails are emails from existing customers and business partners.

## **Maintenance:**

- Delete any email messages that you do not need to have a copy of, and set your email client to automatically empty your 'deleted items' on closing.
- Message that are to be retained for an extended period should be managed via a network server, or moved from your local email folder and stored in the customer, project or engagement and archived with other project related files until the retention period has been satisfied.

## **Personal Usage**

Although the company's email system is meant for business use, the firm allows personal usage if it is reasonable and does not interfere with work. However, the sending of chain letters, junk mail, jokes and executables is prohibited. All messages distributed via the company's email system are the firm's property.

## **Confidential Information**

Never send any confidential information via email. If you are in doubt as to whether to send certain information via email, check this with your supervisor first.

## **Passwords**

The use of passwords to gain access to the computer system or to secure specific files does not provide users with an expectation of privacy in the respective system or document.

## **Email Retention**

All emails will be deleted after 120 days. If a user has sufficient reason to keep a copy of an email, the message must be saved to the appropriate folder in the firm document management system. Users are not permitted to archive messages to local hard drives.

## **Email Accounts**

All email accounts maintained on our email systems are property of the firm. Passwords should not be given to other people. Email accounts not used for 60 days will be deactivated and possibly deleted.

## **System Monitoring**

Users expressly waive any right of privacy in anything they create, store, send or receive on the company's computer system. The firm can, but is not obliged to, monitor emails without prior notification. If there is evidence that you are not adhering to the guidelines set out in this policy, the firm reserves the right to take disciplinary action, including termination and/or legal action.

## **Disclaimer**

The following disclaimer will be added to each outgoing email:

The contents of this email transmission, including any documents transmitted by or accompanying this email transmission, contain confidential information, belonging to the sender that is legally privileged. This information is intended only for the use of the individual or entity named above. This email and its content may not be forwarded to any other recipient except as authorized by law.

Finally, the recipient should check this email and any attachments for the presence of viruses. The firm accepts no liability for any damage caused by any virus transmitted by this email.

Additional disclaimer information may be required based on department or industry regulations.

**Questions**

If you have any questions or comments about this Email Policy, please contact the HR Director. If you do not have any questions the firm presumes that you understand and are aware of the rules and guidelines in this Email Policy and will adhere to them.

**Declaration**

I have read, understand and acknowledge receipt of the Email policy. I will comply with the guidelines set out in this policy and understand that failure to do so might result in disciplinary or legal action.

Signature: \_\_\_\_\_

Date: \_\_\_\_\_

Printed Name: \_\_\_\_\_

## **Exhibit C – SEC Client Record Retention**

### **Retention of Memoranda, Correspondence, Communications and Other Documents and Records**

- 1) SEC Rule 2-06 of Regulation S-X specifies retention requirements for:
  - i) Workpapers and other documents that form the basis of an audit or review (workpapers); and
  - ii) Memoranda, correspondence, communications, other documents and records (other records), which:
    - (1) Are created, sent or received in connection with an audit or review, and
    - (2) Contain conclusions, opinions, analyses, or financial data related to the audit or review.
- 2) Workpapers are defined in Rule 2-06 as documentation of auditing or review procedures applied, evidence obtained and conclusions reached by the Firm in the audit or review engagement, as required by auditing or review standards established or adopted by the SEC or the Public Company Accounting Oversight Board (PCAOB). PCAOB Auditing Standard No. 3, Audit Documentation, establishes general requirements of documentation the auditor should prepare and retain in connection with engagements conducted pursuant to PCAOB standards. Workpapers should contain sufficient documentation to meet the standards established by all applicable professional standards.
- 3) When consulting in writing with persons outside of the engagement team, a Record of Consultation should be made. You should also follow the Firm's policies for resolving and documenting the resolution of differences of opinion between members of the engagement team or between members of the engagement team and a reviewer or consultant. A Record of Consultation setting forth the issue and its resolution should be prepared for all differences of opinion that could not be resolved at the engagement team level.
- 4) Other records should be retained if they support the Firm's final conclusions regarding the audit or review, or contain information or data relating to a significant matter, that is inconsistent with the Firm's final conclusions regarding that matter or the audit or review. However, other records do not include items such as:
  - a) Superseded drafts of memoranda, financial statements or regulatory filings;
  - b) Notes on superseded drafts of memoranda, financial statements or regulatory filings that reflect incomplete or preliminary thinking;
  - c) Previous copies of workpapers that have been corrected for typographical errors or errors due to training of new employees;
  - d) Duplicates of documents; or
  - e) Voice mail messages.

**The following record retention policies are effective for any workpapers or other records connected with an SEC client that meet the record retention criteria of Rule 2-06.**

- 1) In compliance with Regulation S-X and related professional standards, the Firm will retain, for a period of seven years from the date we grant permission to use the auditor's report in connection with the filing of the initial annual report including the financial statements encompassing the period covered by such audit or review (report release date), the audit or review documentation (working papers), and all memoranda, correspondence, communications, other documents, and records, including electronic records (other records) that:
  - a) Are created, sent or received in connection with the audit or review, and
  - b) Contain conclusions, opinions, analyses, or financial data related to the audit or review.
- 2) All other records subject to this policy will be retained in the media in which they were sent or received (or, if not sent or received, in the media in which they were created).
- 3) The following files should be used to retain the working papers and other records:
  - a) An electronic (paperless) annual working paper database;
  - b) An electronic (paperless) quarterly review working paper database;
  - c) An electronic client correspondence database;
  - d) A paper current file; and
  - e) A permanent file.
- 4) Concurrently with the filing of the initial annual report including the financial statements encompassing the period covered by the Firm's audits and reviews:
  - a) All electronic databases related to that period should be locked down;
  - b) After lock down, all electronic databases should be rolled forward and paper current files should be created to allow for the continuing retention of other records;
  - c) No workpapers should be deleted from the paper files; and
  - d) All subsequent additions to or alterations of the paper current file should indicate the date of the addition or alteration, the name of the person who prepared the addition or alteration, and the reason for the addition or alteration.
- 5) E-mail messages created, sent or received by members of the Firm that meet the retention criteria must be retained for the seven-year period. In order to comply with this requirement, the Firm has established a separate correspondence database for each SEC engagement created in the EA Creation database. Each correspondence database has been assigned its own e-mail address. For e-mail messages created or sent by Firm personnel, the sender is responsible for including this separate e-mail address on all messages meeting the retention criteria. For external e-mail messages received by Firm personnel, the recipient is responsible for forwarding all messages meeting the retention criteria to the separate e-mail address.

E-mail messages sent or received from a computer that operates on a system outside the Firm cannot be sent directly to the correspondence database. Consequently, a member who sends or receives a message that meets the retention criteria from a computer that operates on a system outside of the Firm, is responsible for forwarding such message to his or her own firm e-mailbox and, subsequently, to the correspondence database.

Other records sent to the correspondence database may be deleted. However upon deletion, a reason for the deletion must be indicated. All deleted items will be stored in a separate view of the database and will not be permanently removed from the database until lockdown. Prior to lockdown the engagement Member is responsible for reviewing the items in the deletions view for propriety. The only appropriate reasons for deletion of another record are: it is 1) a superseded draft 2) a duplicate item or 3) an incomplete or preliminary communication.

- 6) If a report is not issued in connection with an engagement, the electronic databases should be locked down on the date that fieldwork was substantially completed and the audit documentation must be retained for seven years from the date that fieldwork was substantially completed. If we were unable to complete the engagement, then the electronic databases should be locked down on the date the engagement ceased and the audit documentation must be retained for seven years from the date the engagement ceased.
- 7) Audit documentation must be retained for a longer period of time if required by law.



## SEC Client Record Retention Q & A

- 1) How should we monitor that all correspondence that should be retained has been retained?

There is no way, within the system, to track whether or not correspondence that should have been copied into the Correspondence database was not. The responsibility for making sure we are following the requirements of Rule 2-06 rests with the engagement team.

- 2) SEC Rule 2-06 states “other records should be retained whether they support the Firm’s final conclusions regarding the audit or review, or contain information or data relating to a significant matter, that is inconsistent with the Firm’s final conclusions regarding that matter or the audit or review.” How is the term “significant” defined?

The determination of whether a matter is insignificant has been left to the discretion of the engagement team. In addition to significant audit findings or issues (see M&P MCAP Section 830.00) there may be other matters that in the professional judgment of the engagement team are significant.

- 3) If a paperless database was rolled forward/set up before the update that created the correspondence databases will the Correspondence database be created automatically or do I need to create a new paperless database?

The Correspondence database will be created automatically, but you will need to go back into the EA creation database and click the Add Server Icons button to access it.

- 4) Will all individuals who have access to the workpaper database automatically have access to the Correspondence database?

Yes, the Correspondence database is created using the same access control list as the paperless workpaper database.

- 5) What about an individual who performs services to the SEC client, but is not listed as an owner/member of the engagement team in the EA creation database? Can these individuals send messages to the Correspondence database?

Yes, anyone can forward a message to the Correspondence database, however only individuals listed in the EA creation client document will be able to view the message from within the Correspondence database.

- 6) Does this policy apply to FDICIA banks?

Only to those who are also “issuers”

- 7) Do TS and CS members of the client service team need to comply with this policy?

If TS or CS personnel create, send or receive workpapers or other records that would meet the record retention criteria of Rule 2-06 they need to comply with this policy.

- 8) If a tax professional sends e-mail to an SEC client on a matter unrelated to the audit or review must that e-mail be retained?

If the message contains no information relevant to the audit or review it does not need to be retained.

- 9) If we lock down the quarterly databases after each 10-Q is issued what should we do with correspondence during the period between engagements?

Once the quarterly database is locked down, it should immediately be rolled forward so a new correspondence database is created, thereby allowing for ongoing retention of other records.

- 10) Do you have to retain the same information in both the 10-K and 10-Q databases?

No, information only needs to be retained in one place.

- 11) If a client sends e-mail that meets the criteria for retention to a member of the engagement team, does it need to be forwarded manually to the Correspondence database or can the client send it directly to the database?

The e-mail addresses of the Correspondence databases are not available outside the firm. Any messages sent from the outside (e.g., from clients or a personal e-mail address) will need to be forwarded to the Correspondence database from within the Firm's e-mail system.

- 12) If you have documented in the paperless workpaper file information received in e-mail, can you delete the e-mail?

If you have copied and pasted the entire e-mail message into the paperless workpapers then yes you may delete the e-mail. Otherwise, you should send the e-mail to the correspondence database.

- 13) Can we edit e-mail messages once they are in the correspondence database?

It is physically possible to edit the messages, however this is something that should not be done.

- 14) Can we use a client folder on the network to save all of these documents instead?

No, files copied to the network are not subject to the record retention process so workpaper/ other records should not be stored there.

- 15) If we have a folder on the network where we store workpaper/other records should we delete it?

Yes

- 16) What about Paperless workpaper files, can we keep those on the network?

Provided a copy of the Paperless workpaper files are included in the paperless database, the Paperless workpaper files may still be maintained on the network.

# Recommended Guidelines For RETAINING RECORDS

*Making decisions on retaining files is not always an easy task. Our professionals are providing you with the recommended guidelines for retaining both paper & electronic records.*

## ACCOUNTING

Accounts payable ledgers and schedules	7 years
Accounts receivable ledgers and schedules	7 years
Audit reports of accountants	Indefinitely
Budgets	3 years
Cash receipts records	7 years
Charts of accounts	Indefinitely
Check register and cash books	Indefinitely
Depreciation schedules	Indefinitely
Expenses analyses and expense distribution schedules	2 years
Financial statements (end-of-year)	Indefinitely
General and private ledgers (and end-of-year trial balances)	Indefinitely
Internal audit reports	5 years
Internal reports (misc.)	3 years
Invoices from vendors	7 years
Invoices to customers	7 years
Journals	Indefinitely
Low-income housing records	7 years
Notes receivable ledger and schedules	7 years
Petty cash vouchers	3 years
Plant cost ledgers	7 years
Purchase orders (except purchasing department copy)	1 year
Purchase orders (purchasing department copy)	7 years
Requisitions	1 year
Sales records	7 years
Subsidiary ledgers	7 years
Tax returns, work papers and revenue agents' reports	Indefinitely
Voucher register and schedule	7 years
Vouchers for payments to vendors	7 years

## BANK

Bank deposits	4 years
Bank reconciliations	1 year
Bank statements	7 years
Canceled checks (daily payments)	7 years
Canceled checks (major payments, ie, taxes, purchases of property, special contracts, etc.)	Indefinitely
Duplicate deposit slips	1 year

## COMPUTERIZED RECORDS

*Records must be maintained in a retrievable format according to these time guidelines. Additionally, documentation describing the application, procedures and controls utilized, as well as detail information for the records must be available.*

## DOCUMENTATION

Contracts and leases (expired)	7 years
Contracts and leases (still in effect)	Indefinitely
Deeds, mortgages, and bills of sale	Indefinitely
Inherited property valuations	Indefinitely
Partnership agreements	Indefinitely
Property appraisals	Indefinitely
Property records (including costs, depreciation reserves, end-of-year trial balances, depreciation schedules, blueprints and plans)	Indefinitely
Real estate records	Indefinitely
Trademark registrations	Indefinitely

## EMPLOYEE

Employee benefit plan records	7 years
Employee personnel records (after termination)	4 years
Employment applications	3 years
Payroll and payroll tax records	7 years
Retirement and pension records	Indefinitely
Savings bond registration records of employees	3 years
Time records	7 years
Vouchers for payments to employees (including travel and entertainment)	7 years

## INSURANCE

Accident reports and claims (completed)	7 years
Insurance policies (expired)	3 years +
Insurance records, open or unresolved accident reports, claims, policies, etc.	Indefinitely

## INVENTORY

Inventories of products, materials, and supplies	7 years
LIFO inventory detail information	7 years to Indefinitely
Physical inventory tags	3 years
Receiving sheets	1 year
Scrap and salvage records (inventories, sales, etc.)	7 years
Stockroom withdrawal forms	1 year

## MISCELLANEOUS

Correspondence (general)	3 years
Correspondence on legal, tax and major matters	Indefinitely

## STOCK

Capital stock and bond records; ledgers, transfer registers, stubs showing issues, records of interest coupons, options, etc.	Indefinitely
Minute books of directors and stockholders including by-laws and charter, certificate of incorporation	Indefinitely
Options records (expired)	7 years
Stock & bond certificates (canceled)	7 years

## Certified Public Accountants Business & Management Consultants

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